Paladin Healthcare Capital, LLC

Gentleman,

Paladin Healthcare Capital, LLC ("Paladin," or the "Buyer") and its capital partner, MidCap Financial and its parent company Apollo Global Management ("Apollo /MidCap"), appreciate the time and effort that Daughters of Charity Health System ("DCHS") has undertaken in preparing a revised draft of the proposed Asset Purchase Agreement (the "Draft Purchase Agreement") in relation to Paladin's non-binding proposal (the "Proposal") to acquire substantially all of the assets of DCHS (the "Acquired Assets") through one or more affiliated purchaser entities (each, a "Purchaser" and collectively, the "Purchaser Group"), all as more fully described in the Paladin's 2nd Bid Letter, dated as of May 21, 2014 (the "2nd Bid Letter"). All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Draft Purchase Agreement and the 2nd Bid Letter, as applicable.

Our discussions with Houlihan Lokey ("HL") over the past several weeks have been productive, and we appreciate HL's continued efforts to accommodate our numerous due diligence requests. As per our recent discussion with Geoff Ligibel and Scott Jackson, having reviewed the Draft Purchase Agreement, we feel that it will be most productive for us to be very specific as to our expectations regarding the proposed transaction (the "Transaction"). We are also providing details regarding the major concerns that we have with the Draft Purchase Agreement and highlighting the activities that will need to be completed prior to executing definitive documents (the "Definitive Documents"). Our goal is for the Definitive Documents to broadly include terms that would generally be considered "market." Our perspective is that certain components of the Draft Purchase Agreement are not market, while others are simply unacceptable. We look forward to discussing these and other relevant issues with you in order to develop a framework through which the Definitive Documents may be finalized on an expedited basis.

As you know, without the schedules to the Draft Purchase Agreement, it is impossible to understand precisely what the Purchaser Group will be buying. The architecture of Paladin's contemplated capital structure relies heavily on the underlying values of all of the Acquired Assets, with an expectation that deployed capital will be "secured" by tangible core assets (i.e., A/R, real property); and that there will be a substantial amount of "boot collateral" and legitimate R&W insurance coverage to mitigate concerns regarding the lack of indemnity, full release, and exposure to contingent liabilities in an industry where such liabilities can be massive.

The underwriting of the Transaction by Apollo/MidCap and Paladin has assumed that the Purchaser Group will acquire all DCHS assets, including the hospitals, all real and personal property, inventory, insurance company, MSO, dialysis centers, pooled investment funds, remaining unrestricted cash, and the majority of cash that is presently designated as being restricted. Retained assets are generally limited to intellectual property and gifts specifically designated for Church-related use (the "Retained Assets"). Certain clauses in the Draft Purchase Agreement have given us the impression that there may be a disconnect between our respective assumptions as to the composition of the Acquired Assets, and we would appreciate clarification. To assist, we have attached a schedule of Acquired Assets, along with estimated values based on the information that we have received to date. Please identify any and all assets that you intend to exclude from the Transaction, if any. We would further appreciate any input you can provide regarding appropriate adjustments to the estimated valuations.

We are generally in agreement, subject to certain conditions which are highlighted below, that the Purchaser Group will assume all known and unknown liabilities, other than those pertaining to the Retained Assets. For purposes of its underwriting, Apollo/MidCap/Paladin have assumed that the known liabilities would approximate $320mm. Please provide input and clarification regarding this estimate.

Apollo/MidCap and Paladin's commitment to fund the Transaction as proposed is based on the following key assumptions:

1. We assumed that consideration for the Transaction will be in the form of cash at closing based on an agreed-to formula, plus the assumed liabilities. Cash at closing is expected to equal those amounts required to retire all senior debt and meet all transaction costs, less any cash on hand. We understand that HL is finalizing pro forma financial information that will help us anticipate what the Purchaser Group's opening balance sheet and run-rate will be as of a theoretical closing date. We anticipate that the information will include a waterfall depicting the amount of cash that is projected to be required to affect the closing of the Transaction (the "Closing"), which will enable us to make appropriate adjustments to Sources and Uses.

2. We assumed that all Acquired Assets would be acquired free-and-clear of any encumbrances. Please let us know if you are proposing that the Purchaser Group assume any senior debt, as we were confused in this regard by the Draft Purchase Agreement. We are not opposed to this, but it may necessitate the negotiation of inter-creditor agreements that could become a closing condition.

3. We assumed that the business will be generating a run-rate that is comparable to the forecasts that we have received to date. Based on Wednesday's call, it sounds like the business is holding up reasonably well. The forecasts that you are working on will be very helpful to solidify our understanding of the anticipated condition of each of the entities which comprise the Acquired Assets as of a theoretical closing date.

If we are able to confirm the above assumptions, we anticipate that Apollo/MidCap and Paladin will reaffirm their commitment to fund the Transaction as proposed, subject to certain adjustments to the Draft Purchase Agreement and related documents, the most material of which are discussed below. However, to the extent that there are significant changes to these assumptions, it will be necessary for Apollo/MidCap and Paladin to re-underwrite the Transaction, which may or may not lead to proposed modifications. Once we receive the information from HL, we will move quickly and diligently and be very forthright should the modified assumptions no longer support the contemplated deal structure. Of course, the hope is for Apollo/MidCap and Paladin to simply reaffirm their prior commitments and be in a position to close the Transaction on an expedited basis.

With respect to due diligence, as noted, we appreciate HL's effort to accommodate our requests. An updated list of outstanding items is attached. As discussed during our call on Wednesday, we have limited our counsel to conducting cursory reviews of certain subject matter which will require deeper reviews prior to executing the Definitive Documents. We anticipate that counsel can complete such a review on an expedited basis. We will authorize such efforts once we are in sync with DCHS as to the material deal terms, and HL provides assurance that the Purchaser Group has a legitimate opportunity to close the Transaction.

In addition to completing our due diligence review, it will be necessary to fully engage one or more underwriters of R&W insurance, which underwriter(s) may propose certain modifications to the Draft Purchase Agreement. We generally understand the scope of available coverage, and accept that certain contingent liabilities will be excluded such as those relating to Medicare and Medi-Cal. That said, maximizing available coverage is important to the Purchaser Group; we will need the help of the Seller to achieve this goal, as further described below. We understand that the process typically takes between two and three weeks to finalize, but R&W insurance policies are readily available and attaining one should not be an issue.

As noted, we have not yet completed legal due diligence with respect to DCHS and its affiliates. Certain specialists (*e.g.*, tax, employee benefits, insurance, labor) have not yet finalized their review of the Draft Purchase Agreement. Accordingly, the Draft Purchase Agreement remains subject to further review and comment and the following represents a selection of the more material comments and questions we have regarding the Transaction. We look forward to discussing all relevant items with you in greater detail in the hopes of moving forward to finalize Definitive Documents on mutually agreeable terms. To that end, set forth below is a summary of our principal comments regarding the Draft Purchase Agreement. We have attempted to accommodate many of DCHS's requests and are agreeable in concept to moving forward with a Transaction that does not include any indemnity and that releases DCHS and its affiliates from claims, but we require clarity and further information prior to submitting a revised Draft Purchase Agreement.

1. **Structure (Preamble)**

   a. As we have previously discussed, we intend to establish an operating company which will be owned by a trust on behalf of the employees (the "Op-Co Parent"). The Op-Co Parent will wholly-own six operating companies, each of which will acquire the operating assets relating to a specific hospital (each, an "Op-Co," and collectively, the "Op-Cos"). A separate holding company will be established to acquire the balance of the Acquired Assets (the "Prop-Co Parent"), which will wholly-own various subsidiaries (the "Prop-Cos"). In order to avoid potentially catastrophic gap periods, it is absolutely critical that licenses, provider numbers, and receivables end up on the balance sheets of the corresponding Op-Cos; and that the old operating companies cooperate with the Op-Cos during the period between the Closing and the completion of change of ownership processes that will be required of each Op-Co (the "Transition Period"). Furthermore, we do not want to unnecessarily create cross-liability or cross-collateralization issues with respect to assumed liabilities and the encumbrances on those assets. Notwithstanding these factors, we are amenable to combining the acquisition of the Acquired Assets into an omnibus purchase agreement as you have proposed. However, we will require the inclusion of substantial and detailed schedules of assets and liabilities that identify the respective Purchaser to which each asset and liability will be transferred.

   b. As we have discussed with you, we are firmly committed to not only affirming the union's role with the Hospitals but would like to step up their involvement. We are still working on precisely how to architect the Op-Co Parent which will be owned 100% by the employees, and how to design provisions in the Definitive Documents that will provide assurances to the unions without provoking the need for additional closing conditions. Once we have completed this analysis, we will propose such language.

   c. Our agreement to proceed with an omnibus arrangement will also depend on whether such an arrangement has any impact on the regulatory consent process. Our continued due diligence concerning structure will drive this process, as we are committed to structuring in a manner that ensures closing for all parties.

2. **Transferred Assets (Article I)**

   a. DCHS appears to have limited the assets that will be transferred to the Purchaser Group. As such, we will require detailed lists of those assets which DCHS intends to exclude from the Transaction. In particular, it appears that DCHS has only committed to assigning assets that are assignable or transferrable and has deleted provisions relating to assets for which consent to assignment has not been received at closing (i.e., DCHS continues to hold such assets and Purchaser Group receives benefits and is responsible for obligations pending receipt of consent). Our view of this Transaction includes DCHS and certain of its affiliates continuing as

an on-going entity for several months post-closing to assist with obtaining various consents to assignments and to assist with billing during the Transition Period. It is vital to the on-going operation of the Hospitals that DCHS provide assistance to the Purchaser Group and each Op-Co during the Transition Period and further detailed discussions on this matter are required.

b. DCHS has indicated that certain personal property assets will be excluded. Please provide us with details on which assets DCHS intends to exclude (other than Church-related items discussed in the excluded assets provisions). We request that all asset classes be scheduled in detail in Section 1.01.

c. It appears that DCHS does not intend for all Landlord leases be transferred but only those "exclusively with respect to the operation of the Hospitals." Although we may be confused, this seems to indicate that DCHS potentially envisions non-Hospital assets (e.g., medical office buildings) as being Retained Assets. It is imperative that we understand the nature of all Retained Assets that DCHS is contemplating as soon as possible. We are unable to effectively assess the value of the Acquired Assets so long as these matters are unclear, but our expectation has been that all assets of the Sellers will be transferred other than narrowly defined excluded assets (e.g., IP and specific gifts that may not be utilized by non-church affiliated entities). Likewise, we do not believe that any rights or claims or other benefits appurtenant to Purchased Assets should be excluded from the Purchased Assets and therefore your deletions and restrictions of various asset classes in Sections 1.01 do not comport with our understanding of the Transaction.

d. With respect to the Medical Foundation, Paladin does not have a 501(c)(3) entity set up that would be able to take ownership of the equity in the Medical Foundation, and we do not anticipate forming such an entity. Rather, we are supportive of either (i) bringing a 3rd party partner into the Transaction to acquire the Medical Foundation, or (ii) supporting the physicians currently affiliated with the Medical Foundation in structuring self-governance of the Medical Foundation. In either case, the Purchaser Group intends to assume and perform its obligations under related assigned contracts, including funding obligations and operational support. Additional due diligence regarding the operations and financial status of the Medical Foundation will be essential in structuring this portion of the Transaction.

3. **Retained Assets (Section 1.03)**. As noted above, our expectation has been that all assets of the Sellers will be transferred to the Purchaser Group other than narrowly defined Retained Assets.

a. We understand that some specific gifts may not be assigned due to restrictions on the nature of entities that can utilize such gifts. In those cases, we would expect a list of such gifts, details of their restrictions, and covenants by DCHS to expend such amounts following the Closing in communities served by the Hospitals.

b. We do not believe that DCHS should retain any restricted cash (as all restrictions should be lifted upon repayment of the outstanding bonds and all other such cash should be utilized to pay liabilities under the various retirement and benefit plans at closing). All other cash of DCHS must be subject to specific covenants concerning its use between signing and closing.

c. Although we are open to DCHS retaining inter-company receivables, we require additional due diligence to understand the nature and scope of these receivables.

4. Assumed Liabilities (Section 2.01)

a. Other than liabilities associated with Retained Assets, we understand DCHS' request that all liabilities, whether occurring pre- or post-Closing, known or unknown, be transferred to the Purchaser Group. However, we need additional visibility into the off-balance sheet liabilities the Purchaser Group may be assuming. The Definitive Documents should include schedules of all known liabilities to be assumed by the Purchaser Group, including estimates of IBNRs, updated rent rolls, off-balance sheet obligations, and other variable and contingent liabilities.

b. It appears that DCHS intends for existing indebtedness (possibly including mortgage encumbrances) to be assumed by the Purchaser Group rather than being repaid out of purchase price proceeds, whereas our understanding has been that the Acquired Assets would be delivered to the Purchaser Group free and clear of encumbrances (including debt instruments). Although we are not ruling out assumption of debt, we need to understand the nature and scope of the debt obligations which DCHS envisions being assumed by the Purchaser Group, and the effects that such obligations will have on Paladin's ability to finance the Transaction. This may further necessitate a closing condition associated with the execution of acceptable inter-creditor agreements.

5. Consideration (Article III)

a. Paladin's expectation is that the final purchase price will be derived from a formula included in the Definitive Documents based on repayment of various obligations of DCHS (as currently proposed in Section 3.02) provided that all such obligations are quantified and included in schedules attached to the Definitive Documents and agreed to by the parties prior to the Closing.

b. We do not believe that a holdback escrow is required given our willingness to include severance payments to executives as part of the formula for determining the ultimate purchase price. We have anticipated that the severance obligations would be fulfilled by DCHS out of proceeds at Closing and no further obligations to make severance payments should remain. In the event the severance payments referenced in the Draft Purchase Agreement require payments following the Closing, Paladin is open to developing an arrangement to ensure such amounts are paid, but funding should not be in addition to amounts referenced as closing date purchase price.

c. Paladin would appreciate reviewing a proposed funds flow / waterfall of the closing date purchase price so we can better anticipate the estimated liabilities and transaction costs to be paid at Closing (including estimated transfer taxes).

d. In connection with determining the purchase price, Paladin requests that DCHS deliver estimated closing date balance sheets, income statements, and 12-month projections (assuming no transaction taking place) both at signing and updated immediately prior to Closing for each Seller entity individually and on a consolidated basis. We see no reason for a post-Closing balance sheet to be produced or delivered by the Purchaser Group given that we have agreed not to require any post-Closing purchase price adjustments.

e. Paladin is interested in discussing the potential for additional cash consideration to be paid to DCHS on a contingent basis out of QAF payments received for periods after 2016, upon achievement of agreed upon benchmarks. We look forward to additional discussions regarding these matters.

6. **Deposit (Section 3.06).** With respect to DCHS's request for a deposit, such a request is highly unusual in transactions such as this. As one of the foremost private equity firms in the industry, Apollo is disappointed to see any request for a cash deposit as their reputation for closing deals precedes them. Nevertheless, we are discussing proposals with Apollo/MidCap and have proposed to them a $25 million refundable deposit. Such deposit would be reduced to $10 million after 6 months and then would be completely refunded after 12 months (or accrue interest at a rate of 10% per annum for so long as it remains in escrow). The deposit would be forfeited to DCHS only in the event that all closing conditions were met but the Purchaser Group did not fund the closing purchase price and such breach resulted in a termination of the Transaction by DCHS. In all other events, the deposit would be fully refundable in the event the Transaction did not proceed for any reason.

7. **Release (Section 3.10).** The release proposed by DCHS is extensive and broad. Despite our reservations to provide blanket releases, we are amenable to this proposal (excluding certain matters such as DCHS's secondary liability under the multi-employer plan), but in exchange we will require that the representations and warranties provided by DCHS be comprehensive and by and large free from materiality and other qualifications. Paladin will need comfort that the reps and warranties are broad and substantive if the Purchaser Group is to accept a no-indemnity transaction with a full release of claims where its only recourse for a litany of potential liabilities will be through warranty&W insurance. Additionally, we will expect very detailed disclosure schedules in order for Paladin to fully understand the scope of issues that the Purchaser Group will be responsible for post-Closing. Any such release will be effective only upon the Closing and will not be effective as of the signing.

8. **Representations and Warranties (Article IV and Article V).** While we cannot provide complete comments with respect to the specific representations and warranties without having completed our due diligence and without the benefit of a complete review by our specialists, we offer the following general comments:

    a. Generally. Given the lack of indemnity and full release, we expect a broad and standard set of representations and warranties in this Transaction and will require customary reps regarding undisclosed liabilities, absence of changes, environmental matters, no conflicts, title to assets, material contracts, regulatory compliance and other matters. Likewise we do not expect reps to be limited by time periods. Although we will endeavor to take DCHS's comments and changes to the representations and warranties into account, many of the previously deleted provisions must be reinserted to provide the Purchaser Group with adequate protection under its rep and warranty insurance policy.

    b. Material Adverse Effect/Materiality. We believe that the Draft Purchase Agreement uses materiality and "Material Adverse Effect" qualifiers too often in the representations and, in general, they should be deleted. We do not believe that it is appropriate to be generally required to meet a Material Adverse Effect and/or a materiality standard where there is no indemnity and a full release.

    c. Knowledge. In general, the "Knowledge" qualifiers in the representations should be deleted, other than when used to qualify representations addressing threatened matters or third party actions. Although we are willing to exclude members of the boards of directors of the various Seller entities from the knowledge group, we will require that "Knowledge of the Sellers" include the CEO and CFO of each Seller and not only the CEO and CFO of the DCHS parent.

9. Covenants (Articles VI and VII)

a. Governmental Approvals (Section 6.02). Filing fees and expenses with respect to antitrust approvals are typically borne equally by purchasers and sellers given the mutual interest of the parties in obtaining such approvals. However, as discussed above, we are open to covering these and other transaction expenses for DCHS subject to an appropriate termination fee in the event the Transaction is terminated prior to consummation, whereby we would recover expenses associated with the Transaction. Additionally, the Purchaser Group should have the right to extricate itself from any anti-trust review that could subject it to undue hardship (e.g., second request, limitations on ability to control transferred assets, litigation with governmental authorities).

b. Consents to Assignment (Sections 6.02(e) through (h). It is not practical to expect that all consents required for the Transaction would be received at Closing nor is it practical to exclude assets / contracts for which no consent has been received. We propose that the previous language regarding post-Closing cooperation with respect to such assets be reinserted so as to provide a clear transition period during which the parties will endeavor to properly transfer all Acquired Assets before DCHS entities wind down.

10. Conduct of the Business (Sections 6.03 and 6.04)

a. Although we appreciate that DCHS must run the business between signing and closing, it is unacceptable for DCHS to do so without substantial covenants and restrictions on cash utilization, material contracts, and activities out of the ordinary course.

b. Notwithstanding the foregoing, we are amenable to DCHS's use of unrestricted cash for payment of retention bonuses and other matters that are specifically scheduled and approved either prior to execution or during the pre-Closing period. In furtherance thereof, we propose that DCHS prepare a pre-Closing period budget that can be approved by Paladin and attached as a schedule to the Definitive Documents. In addition, Paladin would like further information on DCHS's retention bonus plan including potential participants, terms of payment, and amounts of bonuses proposed.

11. **Notification (Section 6.06).** Although we expect Sellers to update disclosure schedules between exescution and Closing, inaccuracies of representations or warranties of the Sellers should not limit or otherwise affect any right or remedy of the Purchaser Group existing or arising by reason of the breach of such representation or warranty. Additionally, no updates should cure any defaults for purposes of termination rights of the Purchaser Group. The Purchaser Group cannot be put in the position of being forced to close a transaction that is deeply flawed simply because DCHS has provided it with notices of such flaws.

12. **Exclusivity (Section 6.06).** Paladin's proposed language regarding exclusivity must be restored. We will not accept any "fiduciary out" as part of this Transaction. As you are surely aware, there are no legal requirements for such a right in private transactions such as ours. Paladin and its financing sources will not commit the immense investment necessary to consummate this Transaction if we can simply be outbid at any time. The only exception would be the inclusion of a substantial break-up fee.

13. Covenants of Purchaser (Article VII)

a. Employees (Section 7.02). We are generally in agreement on treatment of employees of DCHS with respect to their transition to the Purchaser Group. However, we have certain reservations

that must be addressed prior to agreeing on this provision. Accordingly, we request a summary of all such severance obligations including terms and amounts so that we can properly calculate its potential effect on the post-closing operations of the Op-Cos. Our respective ERISA counsels will negotiate the exact wording of this section but, as a general matter, we expect that DCHS will commit to not cause any WARN Act layoffs during the pre-closing period. Additionally, as the Transaction is proceeding as a "no indemnity" deal, we believe it should be mutual and are not inclined to provide any indemnification to DCHS under the Definitive Documents.

b. Pension Liabilities (Section 7.03). This provision requires further examination by ERISA counsel. We are not opposed to covenants regarding the maintenance of the various pension plans to be assumed by the Purchaser Group.

c. Consents and Contact with Unions (Sections 7.04 and 7.05). While we understand DCHS's interest in participating in discussions with the unions, vendors, suppliers, and other third parties that are party to contracts that must be assigned to the Purchaser Group, it is neither appropriate nor standard for a seller to restrict a buyer's ability to communicate with such parties during the pre-Closing period. It is important for the Purchaser Group to have unfettered communication rights with such parties in order to ensure a smooth transition at Closing, and to ensure the appropriate formation of the Op-Co Parent. We are open to permitting DCHS to participate in such communications but cannot be constrained as proposed. Furthermore, the Purchaser Group to make any changes to collective bargaining agreements or other material agreements during the pre-closing period without Paladin's prior written consent. We are fully committed to assuming existing contracts but cannot be expected to assume material contracts such as collective bargaining agreements that have been amended or modified during the interim period without the consent of the Purchaser Group. Conversely, we see no reason why DCHS should have any consent rights with respect to such changes either as any changes to such contracts negotiated by the Purchaser Group would not take effect until after the Closing.

d. Capital Commitment (Section 7.10). While the Purchaser Group is committed to using commercially reasonable efforts to ensure that the Op-Cos are adequately capitalized to meet all regulatory, statutory, and standard maintenance requirements (and would be willing to covenant to such effect), we cannot commit a specific dollar amount to capital improvements during the post-Closing period. In order for the Op-Cos to succeed, they must be nimble and able to respond to market conditions, and we believe we are experienced and well positioned to ensure a successful enterprise post-Closing. It would not be practical to require that certain funds be used for capital improvements where those funds may simply need to be deployed in other manners to best ensure the successful operation of the Op-Cos.

e. Charity Care; Other Related Matters (Section 7.11). It is difficult to comment on the proposed Charity Care requirements without fully understanding the charity and pastoral care policies that the Purchaser Group is being asked to commit to. Please provide details regarding such policies, including financial considerations, so we can evaluate them in context.

14. Closing Conditions (Article VIII and Article IX).

a. Representations and Warranties (Sections 8.01 and 9.01). Certainty of closing is important to both parties. Accordingly, in our original revisions of the Draft Purchase Agreement, we preserved all materiality qualifiers for purposes of closing conditions and included an overall materiality qualifier for reps that were not so qualified. Your counter proposal renders this closing condition nearly meaningless by imposing double materiality thresholds on reps and warranties that are already so qualified and MAE standards on reps that are not so qualified. These revisions are unacceptable and our proposed language, which we consider fair and reasonable, should be restored.

b. Government Approvals (Section 8.05). Although we believe the Sellers are entitled to a closing condition regarding the HSR Act approvals (which are included in Section 8.06), we are not in agreement that the Sellers should have a broad closing condition for receipt of all Governmental Approvals (which could prove voluminous). There is a separate termination right for failure to close due to issuance of judgments or other actions that prohibit the Transaction by Governmental Authorities (Section 10.01(e)). This, together with the termination rights under Section 10.01(d) providing for an outside date by which time the Closing must occur, should be sufficient protection for the Sellers.

c. Church and CIMA Approvals (Sections 8.08 and 8.09). As discussed above, given the adequate protections already provided in Section 10, we do not believe it is appropriate for the Sellers to have termination rights relating to the receipt of specific consents or opinions. We have proposed language in the Draft Purchase Agreement to deal with situations in which consents required for closing are not obtained. If the Sellers require a legal opinion concerning church law, we expect that such an opinion would be secured prior to executing the Definitive Documents. Please provide us with further details regarding the laws under which such an opinion is requested so we can better understand DCHS's concern in this area.

d. Purchaser Closing Conditions (Article IX). Your proposed revisions to Article IX are generally unacceptable, and we ask that the original language be restored. Our receipt of assurances regarding absence of material adverse effect, title policies, land surveys, and tail insurance for DCHS are essential. In addition, we need to understand the extent of consents and approvals necessary to consummate the Transaction but expect that all material consents and approvals will be included under Section 9.05. Although we appreciate your addition in Section 9.09 regarding D&O insurance, we will need to examine existing policies to ensure the limits proposed are sufficient. We are working with our advisors to evaluate DCHS's existing policies.

15. **Survival and Indemnification (Former Article XI).** We understand DCHS's request for a "no indemnity" deal and agree to delete former Article XI. As such, we will also delete any other references to indemnification on the part of the Purchaser Group. We expect that the "no indemnity" nature of this Transaction would be mutual.

16. **Assignment (Section 14.02).** The purchaser should have the right to assign the Agreement to an affiliate or to its secured lenders as collateral security, and the deleted language in this provision should be restored.

We look forward to participating in the next phase of negotiations and working through the foregoing together. As we discussed on Wednesday's call, we are happy to coordinate a conference call for next week (other than on Monday). Lorrie Marshall is available help to coordinate. In the interim, if you have any questions, please contact me at 310-414-2700. I look forward to continuing our discussions.

Sincerely,

Joel L. Freedman
President
Paladin Healthcare Capital, LLC

cc: Eric Klein
James MacPherson
Nicholas Orzano
Garrett Fletcher
Bill Rubenstein

Attachments:
Sample Asset and Liability Lists
Outstanding Due Diligence List